

AQA

**AS**  
2ND EDITION

# Business Studies



CD-ROM for students

*Questions and answers*

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For further questions and answers with examiner comments, and specific content guidance on each unit, see the Philip Allan Updates *Student Unit Guides* for AQA AS business studies (available from autumn 2008). For more information and to order copies online, visit [www.philipallan.co.uk](http://www.philipallan.co.uk), or contact Bookpoint on 01235 827720.

**AQA AS Business Studies Student Unit Guides**

*AQA AS Business Studies Unit 1: Planning and Financing a Business* 978-0-340-94791-3

*AQA AS Business Studies Unit 2: Managing a Business* 978-0-340-95817-9




# Introduction

This CD-ROM has been provided to give you an insight into the types of questions that AQA will set in the new AS business studies examination papers.

The articles/case studies on the CD-ROM have been written to match the criteria laid down by AQA for AS business studies. The questions also match exactly the style and format of the AQA questions (excluding the use of AQA answer booklets).

The CD-ROM also includes some sample student responses to the specimen examination papers included on this CD-ROM. These answers are followed by examiner's comments, explaining the strengths and weaknesses of the student's approach and indicating the way in which they would be assessed by the examiner.

## Examiner comments

Examiner comments are preceded by the icon . They are interspersed with the answers and indicate where credit is due. In weaker answers, they also point out areas for improvement, specific problems and common errors.

# Unit 1 Planning and financing a business

Answer all questions Time allowed: 1 hour 15 minutes

Read the case study below and then answer the questions that follow.

## Sticky Buns

Ellie loved sticky buns. When her children were old enough to go to school, she opened a bakery called 'Sticky Buns', specialising in cakes. A number of customers said that they enjoyed the freshly baked cakes and so Ellie converted the old stock room into a small restaurant serving drinks and snacks. Her speciality was sticky buns made to order. On entering the shop, the customer would select a type of bun and choose from one of 50 different flavours of icing and, if desired, an additional topping such as a chocolate flake.

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The original idea had come from a brainstorming session with some friends. Further changes were made as a result of some qualitative market research among customers, mainly from a focus group that met on Wednesday evenings.

Most bakery products had relatively low levels of added value, but the sticky buns and restaurant were an exception. After the first year of trading, Ellie wanted to know if the restaurant was making a profit, so she looked at some financial data. The data are shown in Table 1.

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**Table 1** Financial data related to the first year of Ellie's restaurant

Average spend per customer	£4.50
Average variable cost per customer	£1.00
Fixed costs per month	£1,820
Expected number of customers per month	900

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Before becoming an entrepreneur, Ellie had not enjoyed life as an employee. She wanted to be her own boss, particularly as this would give her control of her working hours. She intended to fit her job around her children's school hours, although she also wanted to make a reasonable profit. Most important was the attraction of doing something that she had enjoyed all her life — baking bread and cakes. Pursuing her hobby was a dream come true for Ellie, who was also looking forward to interacting with customers — her previous job at a call centre had not given her this opportunity and Ellie considered herself to be a sociable person.

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At first Ellie was the only worker, but as the business grew she started to employ some part-time staff. These were mostly college students who were prepared to accept the minimum wage, but there was a high turnover of part-time staff as the students left for better-paid jobs or moved on to university. Other part-time staff tended to grab opportunities of full-time positions when they arose in other businesses. Overall, her part-time staff proved to be quite unreliable and Ellie was often left short of staff because of supposed illness. After 3 years Ellie decided to change her policy and started to employ full-time staff. She immediately found them to be much more committed, less likely to be absent and more willing to take greater responsibility, although this might have been because of the higher wages she had to pay in order to recruit them.

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## Unit 1 Planning and financing a business

Unfortunately, full-time staff preferred working Mondays to Fridays. Although the bakery was always busy during the week, the restaurant served over 60% of its customers on Saturdays and Sundays. However, full-time staff were more reluctant than part-time staff to work at weekends, and sometimes Ellie found herself short of staff and with queues of irate customers. 35

Despite her staffing difficulties, Ellie decided to open up a new bakery and restaurant in a neighbouring town. The reputation of 'Sticky Buns' had spread and the bank manager was impressed with Ellie's business plan and financial predictions. However, he was concerned that Ellie was trying to finance the business herself and had turned down offers from venture capitalists because she had not wanted to lose any ownership of the business. The bank manager was also concerned that Ellie was still trading as a sole trader. He explained: 'In catering there is always a risk of accidents that could lead to a court case and a large debt. Furthermore, you have quite high fixed costs and if you lost customers you could end up making a big financial loss. I would advise you to become a private limited company and offer some venture capitalists a 50% share of your business in return for the capital that you need to open your new bakery and restaurant.' 40 45

- 1 a** What is meant by the term 'brainstorming' (line 7)? (2 marks)
- b** What is meant by 'qualitative market research' (line 8)? (3 marks)
- c** Using the data in the article, calculate the number of customers per month that Ellie needs in order for her restaurant to break even. (5 marks)
- d** Calculate the monthly profit or loss for Ellie's restaurant. (4 marks)
- e** Outline two reasons why Ellie's sticky buns are able to add value to a greater extent than her other bakery products. (6 marks)
- 2 a** Analyse the main motives that led to Ellie becoming an entrepreneur. (10 marks)
- b** Discuss the merits of Ellie's decision to move from employing just part-time staff to employing only full-time staff. (14 marks)
- c** Ellie's bank manager said: 'I would advise you to become a private limited company and offer some venture capitalists a 50% share of your business in return for the capital that you need to open your new bakery and restaurant.' Do you agree with his advice? Justify your view. (16 marks)

### Answers by Candidate A

- 1 a** Brainstorming is a technique whereby a group of people try to generate as many ideas as possible in order to solve a particular problem. The best solution is then determined by analysis of the list of ideas.
- e** This is an excellent definition, showing full understanding of the concept of brainstorming. Given that there are 2 marks for this definition, the first sentence would be sufficient to secure both marks. However, some definition questions have a maximum of 3 marks because a more detailed definition is either appropriate or required. If this question were worth 3 marks, the examiner would expect slightly more than the first sentence. In this instance, the further clarification provided by the second sentence would secure all 3 marks.

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**b** Qualitative market research is when customers or potential customers are asked for their opinions. It focuses on factors such as the reasons why a product is bought or why people prefer a product, rather than looking at numerical information showing how many people buy certain products. In Ellie's case, the qualitative market research took place in the Wednesday evening focus group.

**e** This is another excellent definition. The second sentence is particularly strong, as it shows that the candidate understands what is meant by an opinion; this is critical to the definition of qualitative market research. Further clarification of the concept is shown in the contrast with numerical information (quantitative market research) in the second part of the second sentence. The final sentence confirms the candidate's excellent understanding, by providing an example that is relevant to the case. This kind of example is often crucial to candidates whose definitions are vague. Here, however, it adds no further marks as full marks are earned earlier in the answer.

**c** The number of customers that Ellie requires in order to break even is:

$$\frac{\text{fixed costs per month}}{\text{contribution per customer}} = \frac{\pounds 1,890}{\pounds 3.50} = 540 \text{ customers}$$

**e** This answer is incorrect, but it still receives 4 of the 5 marks available. The candidate clearly understands the formula for calculating the break-even number of customers, but has inadvertently put down a wrong figure for fixed costs. This was almost certainly an error in transcribing the figure from the case study. If the candidate had divided £1,820 by £3.50, he/she would have received full marks. The bottom part of the fraction — contribution per customer — is understood, because £3.50 is the correct result of subtracting £1 from £4.50. However, it is good practice to show all working, because if the subtraction had been carried out incorrectly, no credit could have been given for understanding of contribution per unit.

Because the candidate has carried out a calculation correctly, making only a minor copying error, only 1 mark is lost. It should be noted that if the candidate had carried out this calculation on a rough piece of paper and just put the answer (540 customers) in the answer book, he/she would have received no marks. This is because the examiner would not have been able to see any understanding. It is vital that working out is shown in the exam paper itself, so that credit can be awarded for parts of a calculation that are correct.

**d** The monthly profit for Ellie's restaurant is:

$$\begin{aligned} \text{(number of customers - break-even number of customers)} \times \text{contribution per} \\ \text{customer} &= (900 - 540) \times \pounds 3.50 \\ &= 360 \times \pounds 3.50 = \pounds 1,260 \end{aligned}$$

**e** Although this is not the normal method of calculating profit, it is a perfectly acceptable approach. In fact, it is a more efficient way of calculating profit if the break-even output has already been calculated. Once the fixed costs have been paid, every customer above the break-even quantity is contributing towards profit. In this calculation, the candidate shows that the first 540 customers contribute towards paying off the fixed costs. This leaves the remaining 360 customers to contribute towards profit. They each contribute £3.50, giving a total profit of  $360 \times \pounds 3.50 = \pounds 1,260$ .

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Unfortunately, this is the wrong answer, because the candidate incorrectly calculated the break-even quantity in question 1(c). In these situations, examiners follow a policy known as the 'own figure rule' (OFR). A candidate must not be penalised twice for the same mistake. Candidate A has already been penalised in question 1(c), so in question 1(d) his/her break-even output of 540 is accepted as correct and the answer marked accordingly. The answer receives full marks because it is the profit that would be made for a break-even output of 540. Again, this highlights the importance of showing your working. If this candidate had merely put the answer of £1,260, the examiner would have no way of knowing that he/she understood how to calculate profit and would have given no marks for this answer.

By showing the working out, this candidate receives a total of 8 out of 9 marks for questions 1(c) and 1(d). If no working out had been shown, he/she would have received zero marks for the two answers given.

- e Added value is the difference between the selling price of a product and the cost of bought-in goods and services. Ellie's sticky buns are able to add value because they are unique. A customer in a supermarket will be faced with a limited choice of buns, but in Ellie's bakery they are able to acquire the bun that they like with the icing of their preference. Furthermore, their satisfaction can be increased even more by a topping that would not be available in a supermarket. All of these factors combine to give great satisfaction to the customer, so it will persuade them to offer a much higher price. The icing and toppings will not cost Ellie very much, so there will be a large difference between the selling price and the cost of bought-in goods and services.

- e The question asks for two reasons, but this response focuses on only one. Despite this limitation, the answer still scores highly. Content marks are awarded for a definition of the term in the question and, in this case, a statement of the reason(s) for adding value. With one reason and a clear understanding of adding value, this candidate secures all the content marks. Application skills are also good, although they are limited by the focus on only one reason. Consequently, maximum marks for application are not quite reached.

Note that 6-mark questions asking for two reasons/factors do not award up to 3 marks for each factor. It is possible to earn up to 5 marks for an excellent answer that focuses on just one factor, although higher marks are more probable if two factors are discussed.

- 2 a There were lots of reasons for Ellie wanting to become an entrepreneur. The main ones were:
  - Ellie had not enjoyed life as an employee.
  - She wanted to be her own boss.
  - She wanted to fit her job around her children's school hours.
  - She wanted to make a profit.
  - She wanted to do something that she enjoyed.
  - She wanted an opportunity to meet people.
- e This is an example of poor examination technique. The use of bullet points should be avoided, as they lead to brief answers that tend to lack application and analysis. In addition, too many separate points are being made in this answer. Typically, you will be

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expected to provide two or three arguments for a 10-mark question. The expectation is that these arguments will focus in detail on the reasons for Ellie becoming an entrepreneur. Candidate A has not done this. He/she would have earned content marks for noting down some valid reasons but no further marks for application and analysis, because no explanations are provided.

- b** Should Ellie have employed just full-time or part-time staff? I believe that she should not have concentrated on just one type of staff.

Part-time staff provide certain benefits, as indicated in the case study, but they also caused her a number of problems. Eventually she decided to move on to full-time staff. With just full-time staff, she suffered different problems but gained from some alternative benefits.

My advice to Ellie is that she should employ a mixture of full-time and part-time staff so that she can get the best of both worlds. For example, the part-time staff will work for a lower hourly wage rate and this will save Ellie money.

- e** This is an unusual approach to the question. The candidate starts by going straight into a conclusion. Although this may seem to be answering the question, conclusions are much more forceful at the end of an argument or answer when the examiner can see whether the evaluation has been produced as a result of logical reasoning.

The most unusual aspect of this answer is that the candidate focuses almost solely on the words 'just' and 'only', rather than focusing as expected on full-time and part-time staff. Because these words are a relevant part of the question, any arguments presented will be credited, if appropriate. Unfortunately, however, Candidate A presents a vague response, with mentions of problems and benefits that are not specified. If specific references were noted and explained, this could be a good answer. However, as they are not explained, it is not possible to reward this answer until the final sentence, where one specific benefit of using part-time employees is mentioned. Even then the benefit is not explained, so this answer would receive just 1 content mark. The examiner would note the evaluation or judgement made in the opening sentence and check whether there is supporting evidence for this judgement in the rest of the answer. In this case the answer is 'no', so evaluation would not be credited.

- c** Ellie has put a lot of hard work into establishing her business. It is probable that her new restaurant will be more successful than her original bakery because she has already established a good reputation in the local area.

To some extent the success of the new bakery will depend on how close to the original bakery the new restaurant is. If it is too far away, the reputation of Sticky Buns may not be known. Also it will be much harder for Ellie to manage the new restaurant if it is a long way away. She seems to have been very much a hands-on manager in all aspects of the first Sticky Buns shop, so she may not be good at controlling a new shop from a long distance.

There is no evidence to suggest that Ellie has got any patents on Sticky Buns and, as her buns are based on other bakery products, it is likely that she would not be allowed to get any patents. Therefore she has no protection against competition

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stealing her ideas. In situations like this, it is best to expand as quickly as possible to stop competition using your ideas. This suggests that Ellie should be trying to grow as quickly as possible. With her own financial target being a reasonable profit, I imagine that she has not made enough money to open up a new store. For this reason I think she should take the bank manager's advice to get financial help from outside.

A greater priority for Ellie is to become a private limited company. If she is still a sole trader then she has unlimited liability and can be held responsible for all the debts of her business. As her bank manager says: 'In catering there is always a risk of accidents that could lead to a court case and a large debt.' If something like this happened to Ellie's business, she would lose all her personal possessions, possibly even the family home. For this reason she must get limited liability. She could open up a private limited company with her husband or a friend if she did not wish to get involved with venture capitalists.

Looking at the list of original reasons for Ellie becoming an entrepreneur, I do not think she should set up a new restaurant in a different town. Ellie intended to fit her job around her children's school hours and unless they have now grown up it is difficult to see how she can do this while running a business in a different town. As she moves from owner to manager, she will also find that she has less interaction with customers and almost certainly she will be leaving the baking to her employees.

Unless Ellie's priorities have changed considerably, my advice to her is to become a private limited company, in case of sudden debts, but not to open up a new restaurant in a neighbouring town. Therefore she will not need any help from venture capitalists.

- e** This is an excellent answer. It covers a number of relevant ideas, and as each idea is developed, there is a suggestion of judgement/evaluation in the body of the answer. Another particular strength of this answer is its application. Each of the arguments being presented is linked closely to the case study, so while Candidate A is developing a line of argument (analysis), he/she is also ensuring that this analysis is being presented in the context of the business (application). This answer would receive full marks.
- e** **Overall, Candidate A shows all the qualities of an A-grade candidate throughout question 1 and also in question 2(c). Unfortunately, the answers to 2(a) and 2(b) are U-grade responses. As there are two heavily weighted questions, representing just over a quarter of the total marks awarded, Candidate A would fall short of an overall grade A. Consistency throughout an examination is very important. However, as most of Candidate A's answers are close to an A grade, he/she would secure enough marks to earn a comfortable B grade.**

# Unit 2 Managing a business

Answer all questions. Time allowed: 1 hour 30 minutes

**Read the case study below and then answer the questions that follow.**

## Bread winners

Pret A Manger (Pret) began in 1986 when two friends borrowed £17,000 to open up a sandwich shop in London. Their idea was freshly-made, organic sandwiches. Today there are over 160 branches in the UK, mainly in London.

Pret created a niche market, adding quality and unusual fillings to a previously predictable and stagnant market. In 2007 Pret's annual sales were £220 million and it recorded a net profit of £23 million. According to Jim Winship, Director of the British Sandwich Association, Pret set the standard, but other brands have, to some degree, caught up. 'It is a highly competitive market, particularly with the coffee bar sector having a great deal more activity recently. It is a tough market and it is perhaps not so easy to innovate any more.'

In the UK Pret is growing strongly, with 45 new outlets opened in the last 2 years. It has also recently launched a new concept — the 'Pret Pod'. This is a kiosk-style satellite branch, in busy locations such as stations and airports. The 'Pods' will use kitchens at nearby branches to prepare their stock.

Pret works on a relatively low marketing budget, amounting to just 0.4% of total sales. There are only three people in the marketing department — not many for a company whose financial target is a net profit margin of 9%.

Promotions largely consist of posters in shop windows, chatty copywriting on the packaging and a brochure. Commercial director, Simon Hargraves says: 'We don't do advertising and we have no press office — we sell sandwiches. We try to keep it as simple as that. All of our sandwiches are made on the day of purchase and at the location of sale: consequently, there are no "sell by" dates.'

Pret selects its workforce carefully, picking only one in every 14 job applicants. Potential recruits are sent on a 1-day experience of the branch, where staff members vote on whether to employ the applicant or not. Employees are encouraged to take responsibility for their own role within a branch and there is a strong emphasis on teamwork, both within shops and between neighbouring shops. Some training, emphasising the aims and values of Pret, is run at the company's specialist Training Academy in Victoria, but most is on-the-job. Internal recruitment is used a great deal for positions of responsibility.

Customer service is important. Mystery shoppers are used to check service, such as the target to serve coffee within 60 seconds of the order. In addition, stores are regularly checked for safety, hygiene and quality.

Staff are encouraged to suggest ideas to improve the company, and financial rewards are given for good ideas. Twice a year a 'massive party' is organised for the workforce. Pay is set at a level of £1 per hour higher than the industry average and hours are flexible, to suit staff needs. Pret was rated as the best catering employer by the *Sunday Times*. Its labour turnover is high at 90%, but much lower than the industry average of 265%. For managers it is only 14%.

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- 1 a** Based on the figures in the case study, did Pret achieve its financial target of a 9% net profit margin? (5 marks)
- b** Analyse two reasons why Pret has such a low marketing budget. (8 marks)
- c** To what extent do the methods employed by Pret enable it to meet customer expectations? (12 marks)
- d** Evaluate the evidence that Pret is using theories of motivation in order to develop and retain its workforce. (15 marks)

### Answers by Candidate B

**1 a** 
$$\text{net profit margin} = \frac{\text{net profit}}{\text{annual sales}} \times 100 = \frac{\pounds 23\text{m}}{\pounds 220\text{m}} \times 100 = 10.5\%$$

The target net profit margin was 9%, so Pret has exceeded its target.

- e** Candidate B shows good technique by starting with the formula for net profit margin. This guarantees some credit even if he/she does not apply the numbers correctly in the rest of the answer. He/she then uses the right figures and calculates the correct answer of 10.5%. In such questions, candidates tend to leave the answer as 10.5%. Given the wording of the question, the final sentence is required in order to secure the last mark, as this shows that the target of 9% has been met or surpassed.

- b** One reason why Pret works on a low marketing budget is because of the high quality of its products. There are no 'sell by' dates, so fresh produce made on the day of consumption is one of Pret's guarantees. The sandwich market is not one in which there are many organic sandwich-makers, so Pret has a unique selling point for its products. This attracts customers who are looking for organic products. As the customers are actively seeking Pret's products, there is less of a need for heavy promotion and advertising. By carefully selecting its employees, and thus ensuring the quality of its products, Pret does not need to spend money on promotions.

The second reason for Pret's low marketing budget is the high level of competition within the market, particularly the coffee bar sector. Because it is a tough market there is no point in Pret spending a lot of money on promotion, as it is hard to gain extra sales from more well-established brands such as Starbucks.

The third reason for Pret's low marketing budget is the high level of word-of-mouth advertising that it receives. Most of its branches are in London, so customers are likely to see different branches. The close proximity of its branches means that there will be high levels of brand awareness in the London area. For this reason the main promotions are just posters in shop windows. These will be seen frequently by potential customers and therefore there is no need to use more expensive forms of advertising media.

- e** Two good explanations are given in this response. The first paragraph provides an excellent analysis of the nature of a unique selling point in a niche market. In effect, Candidate B is saying that the product is sufficiently attractive to require relatively little marketing. The third reason also shows good logical thinking and is almost certainly derived from

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the candidate having some understanding of Pret's existence in London. Although most application will come from the case study or article in the examination paper, this third paragraph shows how you can draw on your own understanding of the world of business in order to apply your answer. The argument presented in the second paragraph is not a valid reason for a lower marketing budget and therefore would receive no credit.

Many students assume that the examiner is instructed to read the first two reasons only (as the question only asks for two reasons) and ignore the third reason. This is not the case. Examiners are instructed to read all of the answer and credit the best parts. Therefore, the second paragraph would be ignored and suitable credit given to paragraphs 1 and 3, as they are the only parts of the answer that are relevant. This answer would therefore achieve maximum marks, despite the spurious argument in paragraph 2. The view of the examination board is that Candidate B has been penalised by wasting time on this paragraph and may therefore not be able to deliver such high-quality answers later in the paper, when time is running short.

- c Customer expectations are what people think should happen and how they think they should be treated when asking for or receiving customer service. Customer expectations are based on:
  - what people hear and see
  - what customers read and what organisations tell them about their service
  - what happens during the customer experience
  - what has happened to them in previous customer service experiences

The greater the expectations that are built up by these factors, the higher the level of service that must be provided in order to meet the customers' desires. The main customer priorities/expectations are as follows:

High-quality products or services. Pret delivers high-quality products by ensuring that they are freshly made. The sandwiches are organic and made on the day of consumption. Because they are produced in the kitchen within the same outlet there is a further reassurance that they are fresh.

Having friendly staff dealing with the processing of the good or service is another way of meeting customer expectations. Pret staff are chosen by their fellow employees, so it is likely that the staff will get on together in a happy environment. This should make the shoppers' experiences favourable as well. Probably the most important method used by Pret to ensure that it meets customer expectations is the use of mystery shoppers to check the quality of service and the promptness of delivery of the product.

Pret was rated as the best catering employer by the *Sunday Times*, and although this does not directly affect customers, a happy workforce is likely to be providing a better service, although a 90% labour turnover may indicate that there are some staffing problems that might affect customer service.

Finally, there is a specialist training academy in Victoria which helps to make sure that employees are fully trained in their job. This is then backed up by on-the-job training.

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Overall I believe that it does meet the customers' expectations. The company is growing rapidly, despite a limited marketing budget, and has a reputation for high-quality products. The fact that it can sell its sandwiches at such high prices suggests that customers believe they are of good quality. By picking only one in every 14 job applicants Pret is guaranteeing high-quality service, because it is being very selective in its employees. This along with its training and constant checks by the mystery shoppers are the main reasons why I believe that Pret is meeting its customers' expectations.

**e** This is an excellent answer. Candidate B starts by defining 'customer expectations'. Not only does this earn content marks, but also it helps the examiner to see how the subsequent arguments are linked into Pret's attempts to meet its customers' expectations. After the initial definition the answer becomes rather analytical, with no direct reference to Pret in the early part. Once the candidate moves on to discussing the quality and freshness of the sandwiches, application marks can be awarded. In the fourth paragraph, some evaluation is shown, as the candidate indicates why he/she believes the mystery shopper to be a key element in meeting customer expectations. However, this is the only instance of evaluation other than in the final paragraph. In this final paragraph, an excellent overall judgement is made and Candidate B moves on to full marks for evaluation, having already achieved full marks for the other skills of knowledge, application and analysis.

**d** Pret pays its workers higher wages than the industry average and makes sure that the sandwiches are made in the correct, most efficient way. These two factors suggest that Taylor is being drawn upon as a motivation theory.

However, the company also gives responsibility to its workers. This should happen according to Herzberg. The strong emphasis on teamwork noted both within shops and between neighbouring shops is also a motivator.

Overall there is no one theory of motivation that seems to dominate Pret's approach, as it uses bits of different theories.

**e** This answer receives relatively few marks. Theories of motivation look at factors that will encourage workers to apply themselves effectively in the workplace and Candidate B makes reference to a couple of theories, but there is no attempt to analyse (show how these factors motivate) or to evaluate (make a judgement on how much a factor acts as a motivator). A strength of the answer is the fact that in two places it refers to specific theories of motivation.



## Unit 2 Managing a business

Read the case study below and then answer the questions that follow.

### Crisis? What crisis?

#### *Last year*

Narinder ran a textile factory in Slough. She was considering opening up a factory in India as many of her suppliers were based over there. Narinder was the main shareholder, and did not tend to consult with others when making decisions. Despite the introduction of new machinery, her 23 workers only produced 621 garments a week; in the previous year a workforce of 20 had produced a weekly output of 600 garments.

Narinder's operational targets were to reduce unit costs and improve quality. The workers had been reluctant to use the off-the-job training she offered to learn how to use the new machines. They were worried that a day off work would reduce the pay they received through the piece-work payment system. Ineffective use of the machinery meant that many completed garments were rejected by the quality inspectors. On three occasions Narinder had been forced to order extra materials because of high wastage rates and this was reducing her already low profit margins.

Some poor-quality clothing had got through and damaged the company's reputation. Narinder had lost two important contracts with local retailers and orders had fallen since their peak 3 years earlier, when the factory had been at maximum capacity, producing 900 garments a week. Narinder was concerned about the high level of spare capacity as the factory size had not been reduced.

Narinder was unable to achieve her operational targets because of inefficiency in operations management, so she concentrated on improving her marketing. Her new contacts had encouraged her to produce ethnic clothing that could be sold at a higher price. Market research indicated that all of Narinder's garments were selling in low growth markets, with many in the decline stage of the product life cycle. Two 'cash cows' were responsible for 90% of the profits and both of these had needed extension strategies in recent years.

#### *This year*

Narinder decided to invest in new ethnic products that could achieve high value added. Within a year, ten new products were launched. Some struggled in the fast-growing, highly competitive markets, but four new products were showing excellent sales levels.

Unfortunately, the heavy expenses involved in launching new products were leading to cash-flow problems. At first, these new products were funded by the profits that Narinder had retained, but now she was running out of cash — just at the time when everything looked so promising. She had an excellent relationship with the bank manager, having paid back any loans promptly. Her suppliers were keen for her to succeed, as she always paid immediately, and the shops that she supplied liked the fact that she gave them 3 months to pay.

Narinder was on the brink of success but urgently needed to improve her cash flow.

- 2 a** Using the data in the first paragraph, show that labour productivity has fallen since the previous year. (5 marks)
- b** Analyse two factors that might have led to Narinder being unable to reach her operational targets. (8 marks)

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- c Discuss the extent to which Narinder is using product portfolio analysis in her marketing.** (13 marks)
- d Evaluate the methods that Narinder might employ in order to improve her cash flow.** (14 marks)

### Answers by Candidate B

**2 a** labour productivity per week =  $\frac{\text{output (number of garments per week)}}{\text{number of employees}}$

Previous year:  $\frac{600 \text{ garments}}{20 \text{ workers}} = 30 \text{ garments per worker (per week)}$

This year:  $\frac{621}{23} = 27 \text{ garments per worker}$

Therefore labour productivity per week has fallen from 30 garments per worker to 27 garments per worker.

- e** These excellent calculations earn full marks. In the second calculation, the candidate abbreviates the detail to include just the numbers. Under pressure of time this is fine, as long as you do not lose sight of the eventual measurement. In this case it is 27 garments per worker per week and not just '27'. The fact that this detail was included in the first calculation has probably helped Candidate B to keep focused on the measurement. It is a common error to present an answer as a number without indicating whether it is garments, pounds, units or perhaps even thousands of units.

- b** Operational targets include unit costs, quality and capacity utilisation.

Narinder should be able to meet these targets because she is achieving high value added. With high levels of profit, we can assume that unit costs will increase and this increase will help to achieve the operational target.

Capacity utilisation can also be achieved, as she is increasing the number of workers from 20 to 23.

- e** Candidate B earns credit in the opening sentence for recognising 'operational targets', although they are not explained. In the second paragraph, the answer is not addressing the question, as there is no direct connection between high levels of profit and unit costs. Furthermore, the target for unit costs will normally be a decrease, so the increase in unit costs suggested in the answer would not help to achieve an operational target. The final paragraph also shows a misunderstanding of capacity utilisation. It is the actual output as a percentage of the maximum possible output. The candidate needed to focus on the number of garments produced and to relate this to the maximum capacity of 900, noted in paragraph 3 of the case study, rather than looking at the number of employees. Overall, this answer does not show any real understanding of the question set, but does earn credit for the opening definition.

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- c Narinder used product portfolio analysis a lot in her marketing. Product portfolio analysis looks at the range of products produced by a particular organisation. There are two main tools of product portfolio analysis — the product lifecycle and the Boston matrix. There is evidence that Narinder used both.

Her market research indicated that she was selling in low growth markets, with many products in decline. Consequently, these products probably had low market shares. They would be classified as dogs in the Boston matrix. Narinder realised that she needed to get rid of these dogs and introduce new products into growing markets.

By diversifying into ethnic products with high added value and growing markets, she was trying to establish potential stars (or possibly problem children, as they would start with a low market share).

Narinder had also used extension strategies to support two cash cows — proof that she recognised the importance of the Boston matrix in her strategy.

Narinder also used the product life cycle, recognising that there were many products in the decline stage of their life cycle. She used the profit from the cash cows to start launching new products. Ten new products were launched into fast-growing, competitive markets. Four of these new products were showing promising sales in their first year and were in the growth stage of the life cycle — an encouraging achievement.

In conclusion I would say that Narinder used both tools of product portfolio analysis in a very effective way. She used the Boston matrix in order to decide which products to delete and which ones to use to fund new products. She used the product life cycle to try to overcome the problem facing the business whereby it had too many declining products and none experiencing growth. Within 2 years she transformed the business into one with four excellent new, growing products.

- e This is a strong answer. Candidate B shows an excellent understanding of the concept of product portfolio analysis. He/she then takes this theory and applies it to the events in the case study in a mature manner. The excellent combination of analysis and application is underpinned throughout by judgement in selecting the appropriate theory. This evaluation is further enhanced by the conclusion, which summarises the extent to which product portfolio analysis has helped Narinder in her marketing. This response would earn a high mark, especially when taking into account the level of difficulty of the question.

- d There are a number of ways in which Narinder might have improved her cash flow:
- a bank overdraft
  - a short-term loan
  - debt factoring
  - sale of assets
  - sale and leaseback of assets
  - selling more products
  - using profits

With the high growth in sales of the new products, I think Narinder should be able to make money from her profit in order to improve the business's cash flow. With

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four new products all growing fast, there should be a big inflow of cash that Narinder could use.

Narinder might be able to get a short-term loan from the bank and use it to buy whatever assets the business needs.

After looking at the case study I think it is more likely that an overdraft would be a good solution to her difficulties. She is running out of cash just at the time when everything is looking promising. She has an excellent relationship with her bank manager. It is almost certain that she could prove to the bank manager that any overdraft will be repaid quite quickly. A bank loan, however, would not be appropriate because the heavy expenses involved in launching the new products have mostly been incurred at the time of her recognising the need to boost her cash flow. She cannot use retained profits to solve the cash-flow problems as, according to the case study, she is now running out of cash from this source.

Narinder's suppliers were keen for her to succeed as she paid them immediately. This may be the cause of her cash-flow problem. She could negotiate credit terms from her suppliers and delay payments. This would enable her to overcome a cash shortage.

At present she is giving the shops that she supplies 3 months to pay. She could get hold of this money immediately by debt factoring. A factoring company would buy these debts from her and give her an immediate payment of a large percentage of the debt. Narinder may not need to do this permanently. The article suggests that she is suffering from a temporary cash-flow shortage — in the long term she may not want to use debt factoring as it would lose her money.

Finally, Narinder should consider the factory. If she owns the factory, she could sell it and lease it back — this would give her a large sum of money. Because she is working well below capacity, it might be possible for her to sell off part of the factory. However, as the business is now growing again this may not be a sensible strategy. On balance I would not advise Narinder to use either of these methods as she will lose ownership of a major asset in order to overcome a short-term problem that could be sorted out much more simply.

In conclusion, I would recommend that Narinder negotiates a bank overdraft and arranges to factor the debts that she is owed by the shops that she supplies. She should also try to negotiate some credit from her suppliers — she appears to be a very good customer and they would want to keep her goodwill.

- e** This answer starts unconvincingly. Candidate B shows that he/she knows the various methods of overcoming a cash-flow problem, although the final two bullet points are ways of making profit rather than specific ways of resolving a short-term cash-flow problem. After this list, however, the second and third paragraphs show limited analysis.

The answer suddenly goes into overdrive at the beginning of the fourth paragraph. The candidate appears to have looked into the case study in order to get some ideas — an excellent strategy. From this point onwards the answer takes on a new standard, as every argument is rooted firmly in the context of the case study. The candidate shows excellent evaluation skills in weighing up the relative merits of different solutions to the problem. Candidate B shows great maturity in sifting out those solutions that will not

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help the business in the long term, while focusing on those that relate most appropriately to the situation in which Narinder finds her business: with a short-term cash-flow problem that, if overcome, will allow the business to become much more successful.

**e Overall, Candidate B produces a strong set of responses. In question 1 (Pret A Manger) three of the four questions are dealt with excellently. Some time would have been lost by the approach used in question 1(b), but it turned out to be a wise move, as the second argument was considered to be invalid and so the additional idea earned credit. However, the weakest answer was 1(d), which carried the most marks. There is no evidence in answer to question 2(d) that the candidate was running short of time at the end of the examination. The new specification offers more time in the AS examinations, so time pressure should be less of an issue.**

**In question 2 (Crisis? What crisis?) there are again three excellent answers, each achieving full marks. The candidate misread or misunderstood question 2(b), but some credit is given for the definitions.**

**Taking the two questions together, the high quality of six of the eight answers means that Candidate B would achieve a sound A grade on this paper, despite two problematic responses.**